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Seed Capital Conference Brings 200 Attendees to Washington

Some in the venture capital community say, "There is no shortage of venture capital, just a shortage of good deals." It was in the spirit of facilitating the good deals of tomorrow that a day-long conference on small business financing—"The Angel/Seed Capital Connection"—took place in Washington, D.C., on Sept. 15.

More than 200 people attended the conference organized by the SBA's Office of Advocacy. Chief Counsel for Advocacy Jere W. Glover outlined the objective of the conference in his opening statement: "Without regard to whatever

we may be hoping for, the 21st century will happen. Our task is to prepare for it. Among the factors that will assist us in achieving the objective of making more capital available to small businesses are Internet automation, improvements in the regulatory environment, and tax policy and incentives. How these three factors can be engaged in a cohesive program to enhance small business' access to capital is the theme of this conference."

Twenty-five panelists and speakers highlighted the issues on the contribution of angels, the local connection, expanding opportuni-

Continued on page 4

Regulatory Agencies

OSHA First Agency to Seek SBREFA Waiver

The Office of Advocacy has received its first request to waive the panel review process that is required of all federal agency rulemakings under the Small Business Regulatory Enforcement Fairness Act (SBREFA). The request, from the Occupational Safety and Health Administration (OSHA), concerns that agency's intended proposed rule to revise an existing construction standard for steel erection.

Signed into law in March 1996, SBREFA amended the Regulatory Flexibility Act (RFA) of 1980 and mandated that small business input be solicited early in the rulemaking process for proposals issued by the Environmental Protection Agency

and OSHA. Under SBREFA, official input is to be collected by an interagency panel—the Small Business Advocacy Review Panel—and the recommendations of small businesses are to be evaluated and placed on the record.

According to OSHA, its proposed revision of safety standards for the steel erection industry (SIC 1791) is designed to enhance the protection of workers by strengthening existing regulatory provisions. The proposal is anticipated to contain requirements for hoisting and rigging, structural steel assembly, beam and column connections, joist erection, pre-engineered metal building erection, fall protection,

Continued on page 3

Chief Counsel's "In Box"

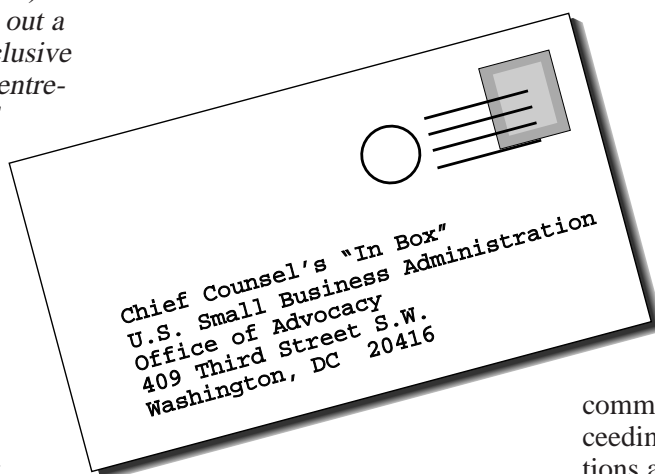
(The following letter was received from Sen. Christopher S. Bond, chairman of the Senate Committee on Small Business.)

Q: *When the Federal Communications Commission auctioned spectrum licenses for Personal Communications System (PCS) use, the Commission carved out a group of licenses for the exclusive bid of small businesses and entrepreneurs. The separate C&F block auctions were created to ensure that businesses of this size would have some assurance of winning spectrum space by not being obligated to compete at the auction table with large, well-financed companies.*

Several factors, including FCC delays in proceeding to the auctions, have contributed to many license holders' current inability to satisfy their financial commitment with the Commission. FCC Chairman Reed Hundt has delayed the date for the license holders' first payment and is reviewing proposals to restructure the payment schedule for these license holders. I have encouraged him to review proposals by the industry for a restructuring; doing so will continue to encourage small businesses' participation in auctions.

I am concerned that, should these license holders default, any licenses reclaimed by the FCC remain available for small businesses and entrepreneurs. I have notified Chairman Hundt that I believe that ownership and attrition rules for the C&F block should remain unchanged and that spectrum licenses should be bid upon by small businesses and entrepreneurs rather than being sold to large telecommunications companies. I

This month: The ABCs of the PCS and the FCC.



am confident that there are several small businesses eager to enter the industry and capable of competing under the guidelines established by the Commission.

A: We share your concern over the problems that have arisen with the FCC auction program for new wireless services such as PCS. . . . We concur with your position that it would be helpful that, upon the default of a PCS license, the FCC preserve any reclaimed licenses for entrepreneurs and small businesses. It is also very important that FCC policies mitigate against small business failures from the onset to ensure that the industry derives maximum benefit from full and open competition. On this point, we remain concerned about entry barriers faced by small businesses, and the difficulties they confront competing with large corporations on what is not an equal playing field in the absence of public policy intervention.

The Office of Advocacy has been

addressing the PCS restructuring issue and small business concerns since early spring. Advocacy has met with Chairman Hundt, his staff, and legal advisors for Commissioners Ness, Quello, and Chong, in addition to FCC personnel from the Wireless Telecommunications Bureau and the Office of Communications Business Opportunities. Advocacy has also consulted with several PCS licensees, trade organizations, investment companies, and other federal agencies to ensure that all stakeholders remain sensitive to small business concerns. Most recently, Advocacy filed comments in the FCC C block proceedings urging some of the positions articulated in your letter.

Finally, Advocacy also met with the SBA's financial staff to explore SBA loan program options, but it was determined, regrettably, that SBA's traditional loan and investment programs were not well suited to provide financial assistance to small PCS licensees. Advocacy will nevertheless continue exploration of restructuring and financing strategies.

These are complex issues in which the SBA will continue to provide support and assistance to the FCC on behalf of small businesses.

Do You Have a Question?

Do you have a question for the Chief Counsel for Advocacy? Address letters to: "In Box," Chief Counsel for Advocacy, U.S. Small Business Administration, Mail Code 3114, 409 Third Street S.W., Washington, DC 20416.

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Editor Sarah Fleming

Managing Editor John Ward

Production Assistants Darlene Mahmoud, Kathy Mitcham

Intern Jessica Lipton

Acting Director, Office of Information
Kathryn Tobias

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OSHA, from page 1

and worker training. The scope of the rule will likely cover the construction, alteration, and/or repair of single and multi-story buildings, bridges, and other structures involving steel erection. (The proposed revisions exempt the erection of electrical transmission towers, communication and broadcast towers, and tanks.)

In its request for a waiver from SBREFA review, OSHA asserted that the advocacy review panel would not contribute to advancing the effective participation of small business in the rulemaking process because in this instance small businesses actively contributed to developing the rulemaking through a consensus process called negotiated rulemaking. It is now up to the Office of Advocacy to evaluate the history of the rulemaking to assess the extent of small business input into the rule's development.

Under SBREFA, the Office of Advocacy is required to consider several factors when evaluating an agency's request for waiver, including: (1) the extent to which the agency consulted with small entities with respect to the potential impact of the rule and considered such concerns; (2) special circumstances requiring prompt issuance of the rule; and (3) unfair competi-

tive advantages that small businesses would gain from the panel process. In order to make this determination, and as required by the law, the Office of Advocacy will be consulting with small business representatives that participated in the negotiated rulemaking for steel erection as well as small businesses who did not participate but may be affected by this rule. Although the law does not stipulate a time frame for granting or denying a waiver, Advocacy is committed to answering OSHA's request as quickly as possible.

Both the Office of Advocacy and small businesses will still have an opportunity to express their concerns during the public comment period once the rule is published in the *Federal Register*. For more details on this intended proposed rulemaking, or for more information about SBREFA, contact Sarah Rice, policy advocate in Advocacy's office of Interagency Affairs, at (202) 205-6532, or by e-mail at sarah.rice@sba.gov.

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is where you can find the online version of "The Small Business Advocate" on the Internet's World Wide Web. Look here to find the full text of the current and previous editions.

What Is a "Negotiated Rulemaking"?

A negotiated rule is a federal rule that is drafted by a committee of parties — agency representatives, trade groups, etc. — who will be significantly affected by the rule and who participate in the rule's development.

The Negotiated Rulemaking Act of 1990 (5 USC 581-90) provides a mechanism for federal agencies to bring together these affected interest groups. The idea behind this process is if consensus

is reached by the participants, the rule probably will be easier to implement and less likely to be subject to extended litigation.

In this case, the Steel Erection Negotiated Rulemaking Advisory Committee (SENRAAC) convened by OSHA comprised 20 affected parties, some of whom were representatives of small construction firms.

Conference, from page 1

ties for investments in women- and minority-owned businesses, streamlining the process by reducing transaction costs, and nationalizing the market for early-stage financing of emerging businesses.

In addition, the conference discussed the Office of Advocacy's new Angel Capital Electronic Network (ACE-Net), a nationwide Internet-based listing service that provides information to angel investors on small, dynamic, growing businesses seeking \$250,000 to \$3 million in equity financing. The Office of Advocacy offered a hands-on demonstration of ACE-Net to allow investors and entrepreneurs the opportunity to discover the possibilities of the network personally.

Dr. William Wetzel, Jr., director emeritus of the University of New Hampshire's Center for Venture Research, said, "ACE-Net is the mechanism needed to fill the technology void. Through the use of the ACE-Net technology and, in the process, identifying and acquiring a better understanding of the characteristics of the angels and their



Chief Counsel for Advocacy Jere W. Glover addresses conference.

needs, we can realistically establish a goal of increasing the number of angels from 250,000 to at least one million by the year 2000."

SBA Administrator Aida Alvarez delivered the keynote address at the conference, in which she expressed her desire to see the SBA take a leading role among financial agen-

cies in the 21st century. The administrator said she looked to the technological advances the SBA has made, such as the ACE-Net initiative, as the means for the agency to better carry out its mission.

"It's how we use the technology that will help to level the playing field for small business, ACE-Net



SBA Administrator Aida Alvarez delivering keynote address at The Angel/Seed Capital Connection conference.

"The SBA is dedicated to helping promising companies when they need it most. ACE-Net fits this mission by addressing problems of companies too big to grow on personal savings and too small to attract venture capitalists."

*SBA Administrator
Aida Alvarez*

"Among the factors that will assist us in achieving the objective of making more capital available to small businesses are Internet automation, improvements in the regulatory environment, and tax policy and incentives."

*Chief Counsel for Advocacy
Jere W. Glover*



Responding to questions at a panel discussion (L to R): Don Christensen, associate administrator of the SBA's Investment Division; Neal Sullivan, executive director of the North American Securities Administrators Association; and Albert S. Dandridge, associate director of the SEC's Division of Corporate Finance.

being a perfect example. Creating partnerships between entrepreneurs and investors can only lead to more jobs, better products, and a stronger economy," said Administrator Alvarez. "The SBA is dedicated to helping promising companies when they need it most. ACE-Net fits this mission by addressing problems of companies too big to grow on personal savings and too small to attract venture capitalists—all with

the convenience and speed of the Internet."

In addition to the featured plenary sessions, several interactive breakout sessions were offered and concerned a variety of entrepreneur- and investor-oriented topics, including the roles of lawyers, accountants, and finders; how venture investors can more easily stage deals; helping the so-called "gazelles" run; and venture financ-

ing in the 21st century.

Co-sponsors of the conference included the SBA's Office of Investment Companies; Deloitte & Touche, LLP; the National Association of Investment Companies; the National Association of Small Business Investment Companies; the National Association of State Venture Funds; and the National Venture Capital Association.

For additional information on angel and venture capital, contact Brendan McKeon in Advocacy's Office of Information at (202) 205-7749, or by e-mail at brendan.mckeon@sba.gov. Information about ACE-Net may be found on the Internet at <https://ace-net.sr.unh.edu>.

For More Information

A full report on this conference is available in the printed proceedings, *The Angel/Seed Capital Connection Conference Report*. Just published by the Office of Advocacy, this 221-page report contains summaries of all the contributors' remarks, reports on the breakout sessions, and a valuable set of appendices containing resource materials for potential investors and small businesses.

Copies of the conference report

are available for purchase from the National Technical Information service, 5285 Port Royal Road, Springfield, VA 22161; telephone (703) 487-4650, TDD (703) 487-4639. The cost is \$44 for a paper copy, \$19.50 for a microfiche copy. Ask for publication no. PB98-111610.

Two New DOL Rules Would Adversely Affect Small Mines

In comments submitted by the Office of Advocacy on Aug. 1 to the Department of Labor's Mine Safety and Health Administration (MSHA), and on Aug. 21 to the Employment Standards Administration (ESA), the chief counsel expressed concern about the impact on small mines of these agencies' respective proposed rules. Both agencies had certified that their proposed rules would not have a "significant impact on a substantial number of small businesses." During the comment periods, which were extended several times, the Office of Advocacy stated that additional data is needed to determine the effect of the rules as required by the Regulatory Flexibility Act.

On Dec. 17, 1996, the MSHA proposed a rule for occupational noise exposure in coal mines and metal and non-metal mines (published at 16 FR 243). In its comment letter of Aug. 1, 1997, Advocacy acknowledged that MSHA's proposal is a move from the traditional requirements for personal protective equipment to protect workers from noise exposure toward noise control by engineering and administrative vehicles. MSHA's regulatory impact analysis, however, drew no applause. MSHA calculated the estimated cost of the regulation by taking the direct costs of implementing the rule and offsetting those costs with estimated benefits. This approach makes it difficult to determine the direct cost a small mine might incur in meeting the requirements. The chief counsel for advocacy specifically recommended that the agency improve the economic impact analysis to include a list of direct costs, a full explanation of engineering costs, and a further breakdown of costs in a range of business sizes.

On Jan. 22, 1997, the Employ-

New rules proposed by the Department of Labor regarding noise exposure and black lung benefits could have a significant impact on small mine owners.

ment Standards Administration published in the *Federal Register* a proposed rule for implementing the Black Lung Benefits Act (62 FR 14). The proposal changes the requirements for administering insurance coverage concerning black lung disease. Advocacy's comments, submitted in a letter dated Aug. 21, 1997, addressed two major concerns: (1) the ESA failed to use the established and legally required SBA size standards for determining the rule's economic impact or to follow the statutory process for selecting an alternative size standard; and (2) the ESA cer-

tified that the rule would not have a significant impact on a substantial number of small businesses. In Advocacy's comments, the chief counsel contended that the quantitative data necessary to substantiate the agency's certification was not provided. In fact, based on Advocacy's calculations—using U.S. Census data and information received from small business mining representatives—the chief counsel asserted that this rule would have a dramatic and substantial impact on small mines. Small firms account for 95 percent (some 1,811 small mines) of the coal mining industry.

The chief counsel stated that a full economic impact analysis with flexible regulatory alternatives is required and that the ESA's analysis should provide data on different size ranges of small mines and different coal mining operations.

Copies of the Office of Advocacy's comment letters can be found on the SBA's home page at <http://www.sba.gov/ADVO/>.

What Advocacy Said

Excerpt from the Office of Advocacy's letter to the Employment Standards Administration regarding its proposed rule for implementing the Black Lung Benefits Act.

"[The Office of Advocacy] contends that the [Employment Standards Administration] has not provided the quantitative data necessary to substantiate the agency's certifications that this rule will not have a substantial impact on small businesses. In fact, the agency has not provided the public with estimates on the number of small mines which will be affected by this rule, either as a whole or by mining sector (e.g., surface and underground, bituminous and anthracite). Data available to Advocacy indicate that the coal mining industry includes 1,811 small firms, 95 percent of the mines in the industry. Therefore, Advocacy maintains that there are a substantial number of small firms affected by this rule and an initial regulatory flexibility analysis must be completed.

Determining a rule's impact on small businesses and other small entities is an important part of the rulemaking process. It is the burden of the agency to conduct a complete analysis of the affected industry and publish its findings for public comment. The analysis should provide a detailed breakdown of the economic impact of the proposed changes by various sizes, types of operations, and practices within the small mining industry."

Economic Outlook

Statistics Prove It: 1996 Was a Very Good Year

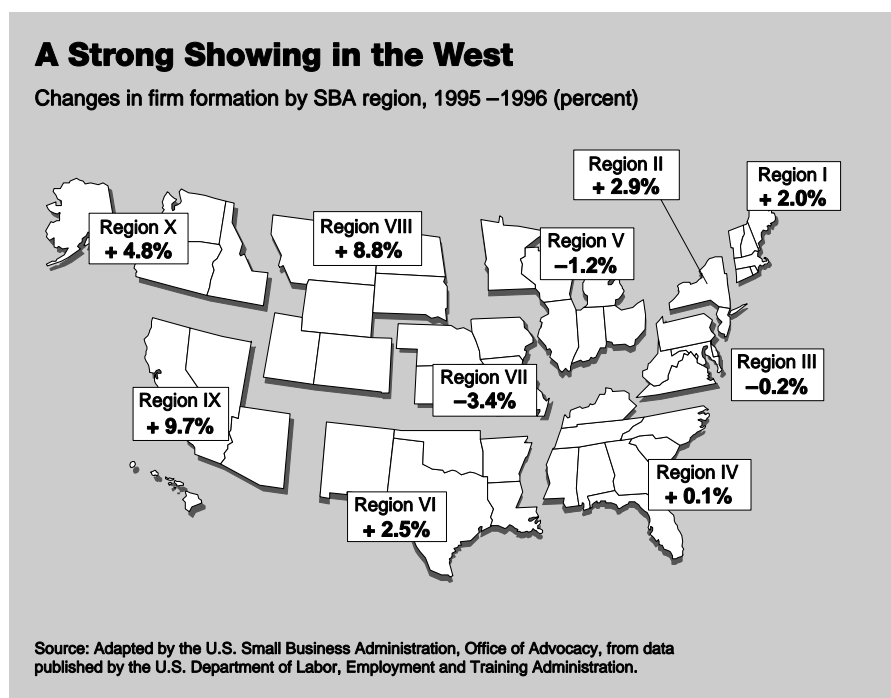
Nineteen ninety-six was a very good year for the U.S. economy and for small businesses in particular, according to the latest release of the Office of Advocacy's *Small Business Economic Indicators*. Compiled annually by Advocacy's Office of Economic Research, *Small Business Economic Indicators* presents the latest available economic data by state, and serves as a supplement to the SBA's more comprehensive annual economic report, *The State of Small Business*. This latest edition contains data covering January to December 1996.

The *Indicators* contain yearly changes, as well as long-term trends, concerning new firm formations, the number of firms, small business income, and bankruptcies, failures, and terminations. Small business employment is represented by employment in the so-called "small-business-dominated" industries.

According to the *Indicators*, gross domestic product grew in 1996 by 4.4 percent and private non-farm employment grew by 2.5 percent in the same period. The data contained in the report show that the small business sector was central to this growth:

- New firms rose by 2.8 percent.
- Business terminations decreased by 1.6 percent.
- The number of firms (accounting for new firms, mergers and acquisitions, and business terminations) increased 1.4 percent.
- Non-farm sole proprietorship income rose by 5.0 percent.
- Small-firm-dominated industries added 1.5 million net new jobs.

State analyses revealed that the number of new firms rose by more



than 20 percent in the District of Columbia, Delaware, Montana, Utah, and Alabama. Overall, the West continued to lead in business formation.

Industry employment analyses revealed that special trade contractors (SIC 17), a small-business-dominated industry, generated the most jobs, with an employment increase of 230,600 new jobs during 1996. The fastest growing

industry during 1996 was miscellaneous retail establishments (SIC 59), which posted an increase of 24.6 percent.

Specific technical questions about the data may be addressed to Brian Headd, economist in Advocacy's Office of Economic research, at brian.headd@sba.gov.

For More Information

The January–December 1996 edition of *Small Business Economic Indicators* is accessible on the Office of Advocacy's Web site at <http://www.sba.gov/ADVO/stats/>. The printed version is available for purchase from the National Technical Information Service, 5285 Port Royal Road,

Springfield, VA 22161; telephone (703) 487-4650, TDD (703) 487-4639. The cost is \$25 for a paper copy, \$10 for a microfiche copy. Ask for publication no. PB97-189740.

New Industrial Classification System to Be Introduced with 1997 Economic Census

The organization and reporting of business data collected by government agencies will undergo major changes in the coming years with the upcoming implementation of the new North American Industry Classification System (NAICS).

Beginning in December 1997, the Census Bureau will begin implementation of the new industry classification system when it begins collecting data for the 1997 economic census. According to Bruce D. Phillips, the director of Advocacy's Office of Economic Research, the new system will be a big improvement over the old Standard Industrial Classification (SIC) system, last revised in 1987.

"In the old set of codes, many new, innovative small companies were improperly placed in the 'not elsewhere classified' category," stated Phillips. "As a result of these misclassifications, numerous small firms in innovative sectors—particularly information technology companies, health services firms, and many companies in the business services category—were systematically undercounted. The old SIC system, therefore, dramatically undercounted the contribution of small firms to the U.S. economy."

One of the important elements of NAICS is that it is being simultaneously implemented by the three signatories to the North American Free Trade Agreement (NAFTA) — the United States, Canada, and Mexico. NAICS will replace these countries' three separate classification systems with one uniform system, thereby better allowing for comparison of economic and financial statistics among them.

Among the substantive changes that NAICS will make are:

A new industrial classification scheme being introduced this year — NAICS — will allow a better look at fast-growing small firms throughout North America.

- creation of an information sector;
- creation of a computer and electronics products subsector in manufacturing;
- combination of restaurants and accommodations to form a new sector;
- redefinition of the boundaries between the wholesale and retail trade sectors;
- restructuring of the finance industries; and
- reorganization of the services division (SIC Division I).

Most of the classification changes occur within the services sector.

Information. This new industrial sector will bring together, for the first time ever, publishing, motion picture and sound recording, broadcasting and telecommunications, and information and data processing services. Publishing will be moved from manufacturing, and libraries will be moved from the education area. Of the 34 industries in the information sector, 20 are new and many are small-business-dominated.

Computer and electronics products. This will be a new subsector in the manufacturing area.

Accommodations and food services. Under the 1987 SIC, restaurants were classified in retail trade

and hotels were classified in services. Under NAICS, they will be combined to become a new sector. New industries include casino hotels, bed-and-breakfasts, full-service restaurants, limited-service restaurants, and cafeterias.

Redefinition of the wholesale and retail industries. In the 1987 SIC system, the wholesale and retail industries were based on the classification of the customer. If products were sold to the general public, the store was classified as retail; if sold to businesses, as wholesale. Over the years, the differences between retail and wholesale have become less clear. Under NAICS, the differentiation between wholesale and retail will be based upon the method of selling, not on the customer.

Old services (SIC Division I). Under NAICS, SIC Division I, the services sector, will be split into several different sectors:

Real estate and rental and leasing. Under the 1987 SIC, real estate was combined with finance and insurance; under NAICS it will be a separate sector within leasing. Also under NAICS, subdividers and developers are moved to the construction area. Under the old SIC system, rental and leasing could be found in a number of places within services. They are now brought together into a subsector that contains nine new industries. Small firms dominate some components of the leasing sector.

Professional, technical, and scientific services. This sector is based on expertise and training of the service provider. New industries include offices of certified public accountants, interior design services, industrial design services,

and environmental consulting. Almost all are small firms.

Administrative support. Industries in this sector include telephone answering services, temporary help services, telemarketing, and private mail centers.

Waste management and remediation. This sector includes hazardous waste collection, treatment and disposal, and materials recovery services.

Educational services. Under NAICS, the sector will be expanded to include language schools and exam preparation services; libraries move to the information sector.

Arts, entertainment, and recreation. The sector will contain 19 new industries, including dinner theaters, dance companies, professional sports teams, casinos, and historical places. Small firms dominate the recreation sector.

Other services. This sector will include personal services; repair and maintenance industries; and religious, grant-making, and professional organizations.

The new areas that NAICS recognizes in the financial area include credit card issuing, financial transactions, processing, reserve and clearing house activities, and investment banking.

NAICS is scheduled to go into effect with data for 1997 in Canada and the United States, and data for 1998 in Mexico. The United States will start implementing NAICS this year with the Census Bureau's 1997 Economic Census. The first NAICS-based statistics from this data collection will be issued in early 1999. Other federal agencies, including procurement offices, will gradually introduce the codes in 1998 and 1999.

For More Information

The Census Bureau will soon be making available for sale the complete North American Industry Classification System manual. Until this manual is available, you can find out about NAICS on the Internet, at the NAICS home page:

<http://www.census.gov/epcd/www/naics.html>. The site includes press releases, comparability tables for the 1987 SIC and the NAICS, and the texts of several issue papers related to industry classifications.

For other information about NAICS, contact Bruce D. Phillips, director of Advocacy's Office of Economic Research, at (202) 205-6975 or via e-mail at bruce.phillips@sba.gov.

Industrial Classification: Why It's Important

The collection and classification of industrial data may seem to be an abstruse discipline, but it is an important issue for small business.

Categorizing businesses by type of economic activity is an activity of consequence in several areas:

- **Government procurement.** The federal government's procurement system that governs the purchase of supplies and services depends upon industrial classification for the compilation of bidder lists (such as the SBA's PRO-Net system), the identification of eligible subcontractors, and the reporting of purchases made each year.

- **Lending and credit reporting.** Lenders routinely require compa-

nies to identify their industry.

Credit reporting agencies, such as Dun and Bradstreet, also require businesses to self-identify their industry before creating a credit record on their data bases.

- **Economic forecasting and decision-making.** In a global economy subject to accelerated change, it is important to have an up-to-date classification tool that accurately reflects the nature of business activity.

- **Trade and regulatory oversight.** Government agencies that oversee trade practices, such as the International Trade Commission, use industrial classification when investigating complaints of unfair

trade practices, such as dumping. Agencies such as the SBA, the Environmental Protection Agency, and the Occupational Safety and Health Administration use industrial classification to more accurately measure the impact of regulations on individual industries.

Tibbetts Awards Presented

More than 350 people gathered in Washington, D.C., on Oct. 16, to celebrate the second annual Tibbetts Awards. The award, named after Roland Tibbetts, the "father" of the federal Small Business Innovation and Research (SBIR) program, was initiated by the Office of Advocacy in 1995 to recognize the most outstanding companies, support organizations, and individuals involved in the SBIR program.

With small businesses flourishing in research and development, producing more than half the nation's product innovations, the U. S. Small Business Administration considers the winners of this award for technology achievement especially significant. "Small firms account for just 18 percent of the nation's industrial research and development work force," stated SBA Administrator Aida Alvarez. "Yet they produce 55 percent of this country's product innovations. This is a phenomenal level of productivity."

In an October ceremony in Washington, 68 are honored for their achievements in innovation and research.

A total of 68 honorees were recognized. The awards were presented by Chief Counsel for Advocacy Jere W. Glover, Dan Hill, the assistant administrator for the SBA's technology office, and Mr. Tibbetts. Additionally, the event included a briefing in the White House, "town hall meetings," and a reception on Capitol Hill.

According to Hill, "SBA's SBIR program ensures that the best and brightest entrepreneurial researchers in America are part of vital federal research and development efforts. These are efforts that benefit our national defense, build safer highways and airports, and contribute to public health and safety. The program enables small busi-

nesses to grow, mature, and create jobs for Americans by moving ideas from the drawing board to the marketplace. The innovations cover the scientific spectrum, from sophisticated concepts to practical consumer products and services."

The SBIR program was begun in 1982 to encourage small firm participation in federal research and development. Over the past years, the program has consistently been judged by the General Accounting Office to be one of the most successful national research and development programs.

The list of Tibbetts Award winners for 1997 is available on the Internet at <http://www.sba.gov/SBIR>. For additional information about the SBIR program or the Tibbetts Awards, contact Maurice Swinton at the SBA's Office of Technology, (202) 401-6365; or by e-mail at maurice.swinton@sba.gov.

Telecommunications Gatherings Hear Small Business Concerns

The Office of Advocacy continues to take an active role in representing small business concerns relating to the Federal Communications Commission's implementation of the Telecommunications Act of 1996. Assistant Chief Counsel for Telecommunications S. Jenell Trigg served as a panelist at several recent events that focused on the effect of the act on small businesses.

These events included:

- Aug. 27, Rural Telecommunications Policy, Universal Service, at the National Rural Develop Partner-

ship 1997 Annual Leadership Conference, Delavan, Wisc.;

- Oct. 17, The Impact of Telecommunications Industry Trends/Mergers on Diversity, at the Second Annual Videoconference on Telecommunications, Howard University School of Communications, Arlington, Va.; and

- Oct. 26, Universal Service in a Competitive Marketplace, at the United States Telephone Association Centennial Convention, Chicago, Ill.

For information on these specific topics, or for information about the

Telecommunications Act of 1996, contact S. Jenell Trigg in Advocacy's Office of Interagency Affairs at (202) 205-6950; or by e-mail at s.trigg@sba.gov.

(See the Chief Counsel's "In Box" on page 3 of this issue for a discussion of a related FCC matter.)

Bank Mergers Focus of One-Day Conference

Oct. 6, 1997, saw a gathering of some 40 researchers, economists, and small business representatives at a conference sponsored by the Office of Advocacy, entitled "The Impact of Bank Mergers and Acquisitions on Small Business Lending." The conference, which was held at the U.S. Small Business Administration's national headquarters in Washington, D.C., focused on studies conducted over the past several years concerning the effects of bank mergers and acquisitions on small business lending.

Charles Ou, senior economist for the Office of Advocacy, said the conference was "an effort to synthesize the data in order to foster sound public policy decisions, identify future research and data needs, and address unresolved questions."

Chief Counsel for Advocacy Jere W. Glover and SBA Chief of Staff Paul Weech opened the program, and Prof. Robert Berney of Washington State University, and former chief economic advisor to the chief counsel, moderated the proceedings.

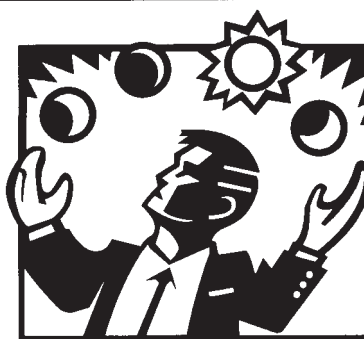
Five researchers who have conducted extensive examination of this topic presented their findings. The featured papers were:

- "The Effects of Interstate Banking on Small Business Lending," by Joseph Peek of Boston College;
- "The Impact of Structural Change in the Banking Industry on Small Business Lending," by James Kolari and Asghar Zardkoohi of Texas A&M University;
- "The Effect of Bank Mergers and Acquisitions on Small Business Lending," by Allen Berger of the Federal Reserve Board;
- "Small Business Lending and the Changing Structure of the Banking Industry," by James Weston of the University of Virginia; and

- "Do Bank Mergers Reduce Lending to Businesses and Farmers?" by William Keaton of the Federal Reserve Bank of Kansas City.

For additional information on the effects of bank consolidation on small business lending, contact Dr. Charles Ou of Advocacy's Office of Economic Research, at (202) 205-6966, or by e-mail at charles.ou@sba.gov.

(For a related story that gives an in-depth look at two of these researchers' reports, see pages 13 and 14 of this issue.)



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AUTHOR QUERY

Are you a retired employee of the SBA? Author writing a history of the agency from its establishment in 1953 through the Reagan years would be interested in corresponding with those who have memories of the agency's development. Please contact: Jonathan Bean, Asst. Professor of History, Southern Illinois University, Carbondale, IL 62901; tel. (618) 453-7872; E-mail: jonbean@siu.edu

Special Feature: Web Watch

World Wide Web Offers Easy Access to Small Business Information

by Jessica Lipton

The Internet has opened up a world of easy access to small business research, statistics and issues. The amount of material available can be daunting, even to experienced researchers. In an effort to point the way to some sites that offer timely commentary or research, here are some Web picks for perusal. Sites are listed in no particular order, and are offered "caveat lector"—that is, they do not necessarily reflect the opinion of the Office of Advocacy.

White House Conference on Small Business (WHCSB). One of the hottest issues for delegates to the 1995 WHCSB concerned independent contractor status. Significant steps have been taken by the Administration and the Congress toward clarifying the standards for determining worker status and promoting uniformity of application of those standards. The IRS announced several administrative initiatives that focus on recognizing the legitimacy of independent contractors. These initiatives would give small businesses significant relief from the most serious problems relating to worker classification. Go to <http://www.whcsb.org/> and <http://www.sbaonline.sba.gov/gopher/Legislation-And-Regulations/White-House-Conference/whc1.txt>

National Association of the Self-Employed (NASE). Self-employed workers get the "worst deal in the country" when it comes to Social Security. NASE President Bennie L. Thayer asserts that today's self-employed pays the employer share of Social Security taxes plus 7 percent. As far as overall tax rates, while employers and employees

saw their taxes rise from 4.8 percent to about 7.6 percent, the self-employed were hit with increases of between 6.9 and 15.3 percent. Go to <http://selfemployed.nase.org/NASE/news/releases/worstdeal.html>.

National Federation of Independent Business (NFIB). The Home Based Business Fairness Act introduced by Sen. Kit Bond (R-Mo.) attempts to clarify the status of independent contractors by including a provision to allow 100-percent deductibility of health care premiums for the self-employed. Also, on this site, pension reform plans, small business provisions. Go to <http://www.nfibonline.com/news/index6.16.html>

National Foundation of Women Business Owners (NFWBO). The NFWBO is a non-profit research and leadership foundation affiliated with the National Association of Women Business Owners. According to NFWBO, women-owned businesses are growing faster than the overall economy in each of the top 50 metropolitan areas in the United States. Go to <http://www.nfwbo.org/rr012.htm>.

[nfwbo.org/rr012.htm](http://www.nfwbo.org/rr012.htm).

See also a new NFWBO study that quantifies differences between the thinking and management styles of women and men business owners (<http://www.nfwbo.org/rr003.htm>), and a report that finds that minority women-owned firms' thriving growth is triple the rate of business growth overall (<http://www.nfbwo.org/rr014.htm>).

Jessica Lipton prepared this feature while a summer intern in Advocacy's Office of Economic Research.

More Site Seeing . . .

Here are some more sites on the World Wide Web that contain material pertaining to small business.

- **American Association of Home-Based Businesses:** <http://www.aahbb.org/>
- **American Society of Women Entrepreneurs:** <http://women.aswe.org/aswe/>
- **Home Office Association of America:** <http://www.hoaa.com/>
- **National Business Association:** <http://www.nationalbusiness.org>
- **National Minority Business Council:** <http://www.nmbc.org/>
- **SOHO America (small office, home office):** <http://www.soho.org/>

Research and Publications

A Changing Financial Services Industry Brings New Challenges to Small Businesses

The implementation of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 is expected to accelerate the pace of structural change in the U.S. banking industry as large banks expand their regional and national franchises. Will small business credit shrink because of the growth of large, complex banking organizations that acquire small banks, which historically have been more active in small business lending? Two recently completed research studies undertaken for the Office of Advocacy focus on this critical issue.

In *The Effects of Interstate Banking on Small Business Lending*, Professor Joseph Peek of Boston College focuses on the period June 1993 through June 1995—a period of significant bank consolidation—to investigate how bank acquisitions influence a banking organization's willingness to lend to a small firm. Most of the data for this study are taken from two sources, the Consolidated Reports of Condition and Income (or "call reports") and the National Information Center (NIC) data base. Bank balance sheet and income statement information, as well as some bank structure information, is taken from the call reports.

The NIC structure file is the primary source for the identification and dating of mergers, acquisitions, bank failures, and *de novo* bank entry. The bank sample includes all FDIC-insured commercial and state-chartered savings banks in the United States for which complete data are available. The call reports provide small business loan data for three size categories: loans of \$100,000 or less (micro-loans); loans of more than \$100,000 up to

The U.S. banking industry has undergone radical change in recent years. Two studies funded by the Office of Advocacy look at the effects of these changes on small business lending.

\$250,000; and loans of more than \$250,000 up to \$1 million. To minimize problems with reporting errors, this study uses only the \$250,000-or-less and \$1-million-or-less loan categories as the definitions of small business loans.

According to the study, mergers are not unequivocally bad for the small business borrower. Subsequent to a merger, surviving banks tend to revert to the acquiring bank's pre-merger small business loan activity.

The primary findings of the

study include:

- The most prevalent type of merger involves the combination of two or more small banks. In roughly one-half of the mergers, the acquirer has a small business loan portfolio share greater than that of the target bank.

- Most of the shrinkage in the number of banks has occurred among the smaller banks (those with less than \$100 million in assets). The entry of new banks into the market has offset little of this consolidation.

- The shrinkage in the number of banks has occurred across most Federal Reserve districts. There is no simple relationship between the degree of shrinkage and the share of small banks in a district.

- In approximately half the mergers, the surviving bank increased its holdings of small business loans during the period immediately following the merger.

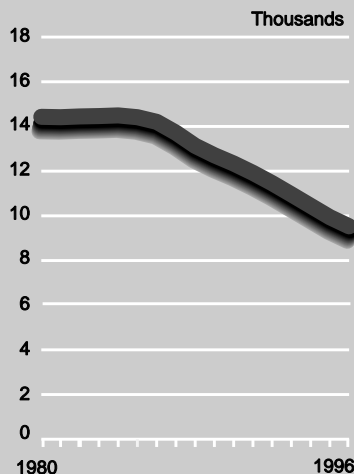
- The degree to which the acquiring bank is committed to small business lending prior to merger, as well as the acquirer's asset size, are important determinants of the willingness of the surviving bank to lend to small businesses.

In the second report, *The Impact of Structural Change in the Banking Industry on Small Business Lending*, researchers James Kolari and Asghar Zardkoohi of Texas A&M University employ recently available data to examine the relationship between bank structure and small business lending.

The authors take a look at historical data on the relationship between bank structure and small business lending and examine recent bank mergers and acquisi-

A Steep Decline

Number of U.S. banks, 1980–1996



Source: Federal Deposit Insurance Corp.

tions for their potential effects on small business lending. The same two data bases were used for the investigation: call reports for the period June 1993 to June 1996, and the bank structure file data base. The authors also conducted a national survey of bankers involved in mergers and acquisitions.

Three hypotheses were tested: (1) that small business lending is related to different variables that capture bank structure; (2) that changes in small business lending activity before and after acquisition are related to different variables that reflect bank structure; and (3) that small business lending volume and the credit evaluation process are related to mergers and acquisitions.

The results of the study were mixed, but the weight of the evidence pointed to more negative than positive effects of banking industry consolidation on small business lending. Regarding the relationship between small business lending and different variables that capture bank structure, the authors found that:

- Banking holding companies' (BHCs) member banks tended to make more small business loans (SBLs) as a proportion of total assets compared with independent banks. (However, holding asset size constant, members of large BHCs tended to have lower SBL ratios than members of small BHCs.)

- Banks in states previously allowing national entry of multiple BHCs or allowing statewide multiple BHCs tended to have lower SBL ratios.

- Branch banks tended to make more SBLs than banks with no branches. However, large branch bank organizations tended to have lower SBL ratios than small branch bank organizations. (Also, states allowing statewide branching tended to have lower SBL ratios compared with states with limitations on statewide branching.)

Regarding the before- and after-merger activities of a sample of bank targets and buyers involved in acquisitions in the second half of 1993 and 1994, the study found:

- Intrastate mergers are more beneficial to small business lending than interstate mergers, an indication that mergers across state lines are not motivated by increasing access to the small business loan market. (Interstate mergers are more likely motivated by the desire to expand a banking organization's large-business loan market.)

- The total asset size of the target banks had a significant positive relationship to changes in SBL ratios before and after bank acquisitions.

- When targets of simpler organizational forms join more complex organizations (for example, large BHCs and branch banks), there are greater increases in small business lending compared with targets of complex organizational forms.

The results of the authors' survey of bankers involved in mergers and acquisitions indicated that market share was not an important motivation for most bank mergers and acquisitions. Gaining entry into a new market, achieving higher oper-

ating efficiency, and profitability were important factors. Among the findings:

- Many respondents reported an increase in small business loans (less than \$250,000) and medium-sized business loans (\$250,000-\$1 million) as a result of their mergers or acquisitions.

- Less than 10 percent of the respondents reported a decrease in their small business loans as a result of a structural change.

- Four characteristics of loan applicants seem to play a very important role in the credit decision process of a relatively large majority of the respondents before and after merger or acquisition: cash flow, financial ratios, collateral, and, most important, character of the manager of the borrowing firm.

- A majority of the respondents experienced no change in the following factors associated with small business loans: profitability, risk of default, number or dollar value, finance charges, approval rate, time to process loans, and offering of related loans.

How to Get the Reports

Copies of both these reports are available from the National Technical Information Service, 5285 Port Royal Road, Springfield, VA 22161, telephone (703) 487-4650; TDD (703) 487-4639.

For *The Effects of Interstate Banking on Small Business Lending*, ask for publication no. PB97-186068. The price is \$31 for a paper copy, \$14 for a microfiche copy, plus postage and handling.

For *The Impact of Structural Change in the Banking Industry*, ask for publication no. PB98-106693. The price is \$35 for a

paper copy, \$14 for a microfiche copy, plus postage and handling.

The Office of Advocacy has published *Research Summaries* on each of these reports: they are available on the Internet at <http://www.sba.gov/ADVO/>. Printed copies of *Research Summary* no. 179 (on *The Effects of Interstate Banking*) and no. 180 (on *The Impact of Structural Change*) may be obtained by contacting Advocacy's Office of Information at (202) 205-6531, or by faxing your request to (202) 205-6928.

New Small Business Answer Card Puts Information at Your Fingertips

Finding the latest statistical information about small businesses has become a simpler task with the publication of the latest edition of the U.S. Small Business Administration's *Small Business Answer Card*.

Gathering data from over a half dozen sources, the 1997 *Small Business Answer Card* makes available in a small, pocket-size format the answers to the most frequently asked questions about this dynamic sector of the U.S. economy, including:

- How many small businesses are there? (There were 5.3 million employers in 1994, employing 51 million workers.)
- How many jobs did small businesses create? (About 11.8 million jobs between 1992 and 1996.)
- How were small businesses financed? (About 38.7 percent of small businesses reported using financing sources other than banks, according to a recent Federal Reserve survey.)
- How many businesses opened and closed? (Some 849,839 businesses closed in 1996, a rate that was 1.6 percent lower than in 1995, while there were 842,357 new firms in 1996, an increase of 2.8 percent over 1995.)

"The numbers in the *Answer Card* show without a doubt," said the SBA's Chief Counsel for Advocacy Jere W. Glover, "what we have known for a long time: that small businesses are the engine driving the U.S. economy."

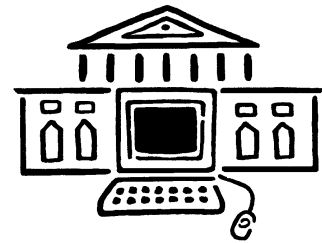
In addition to 10 tables of statistical data, the 1997 *Answer Card* also provides information on how to get to other sources of business statistics and entrepreneurial counseling, such as the Small Business Administration's Internet home page, the Small Business Answer Desk, and the Service Corps of Retired Executives.

How to Get a Copy

To obtain a copy of the 1997 *Small Business Answer Card*, contact the nearest office of the U.S. Small Business Administration, or call the Small Business Answer Desk at 1-800-827-5722.

The *Answer Card* is also available on the World Wide Web at <http://www.sba.gov/ADVO/stats/answer.html>.

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The U.S. Business Advisor is a project of federal agencies in coordination with the U.S. Small Business Administration and the National Performance Review.

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But Why Wait?

The Angel Capital Electronic Network — or “ACE-Net” — is the Internet-based resource that gives new options to small companies and investors looking for promising opportunities. Look for it on the World Wide Web at:

<https://ace-net.sr.unh.edu>

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